

To: Commercial Real Estate Guidance (OP-1248) Public File

From: Mark Van Der Weide

Date: June 22, 2006

Re: Meeting with Representatives and Members of the American Bankers Association (“ABA”) to discuss the proposed interagency commercial real estate (“CRE”) guidance

On June 20, 2006, staff of the four Federal banking agencies (“agencies”) met with representatives and members of the ABA to discuss the proposed interagency CRE guidance. A list of the attendees is attached. Many of the issues raised by the ABA at the meeting also were presented in the ABA’s March 30, 2006, comment letter on the CRE guidance. A summary of the significant points raised by the ABA at the meeting follows.

ABA representatives opened the meeting by indicating that community banks had substantial concerns about the proposed guidance. They stated that CRE lending is one of the few areas where community banks can compete effectively with larger banks and expressed concern that the guidance might make CRE lending uneconomical for small banks. The ABA suggested that if the agencies are worried that a small subset of banks are conducting CRE lending in an imprudent fashion, then the agencies should deal with those imprudent banks on a case-by-case basis using existing supervisory and enforcement tools, rather than by issuing industry-wide guidance. The ABA recommended that the agencies not adopt the guidance. The ABA further recommended, if the agencies decided to issue final guidance, that the guidance be modified substantially to reflect the concerns of its members.

ABA members argued that CRE lending practices are much better now than in the late 1980s and early 1990s – noting improved underwriting practices, better appraisal practices, lower loan-to-value ratios, and better bank supervision. They faulted the guidance for its implicit assumption that CRE lending is more risky than other types of lending, contending in particular that CRE lending is substantially safer than unsecured lending and noting that the average CRE loan held by a community bank has a collateral value equal to about twice the loan value. They also criticized the guidance for its failure to distinguish high-risk CRE lending from low-risk CRE lending. They urged the agencies to amend the guidance to (i) distinguish between lower-risk residential mortgage and pre-sold construction lending versus other more speculative forms of CRE lending; and (ii) clarify the definition of “owner occupied” in the “owner occupied” exception from the definition of a CRE loan.

ABA members also stated that they expected agency examiners to treat the guidance like a rule, to interpret the guidance conservatively, and to use the guidance to require community banks with CRE concentrations to either reduce the concentration or hold more capital and increase loan loss reserves. ABA members specifically noted that

they did not want to be put in a position where they would have to choose between satisfying the demands of a bank examiner requiring more reserves for CRE lending and an external auditor forbidding such additional reserves. ABA members also worried that different agency examiners at different agencies would interpret the guidance differently, resulting in differential treatment for similarly situated banking organizations.

In addition, ABA members indicated that if community banks are required to hold more capital against CRE loans as a result of the guidance, community banks will reduce the amount of their CRE lending, which may result in a credit crunch.

June 20 CRE meeting with Regulators - Preliminary Banker Contact List

Representative for Roger Blair
General Counsel
First Community Bank

Robert Brooks
President and Chief Executive Officer
Eagle National Bank of Miami

Nicki P. Brown
President and Chief Executive Officer
The Wilton Bank

Hunt Campbell
President
First Alliance Bank

Stan Grisham
Vice President, Houston Region
Texas State Bank

Dave Kelly
Senior Vice President, Compliance
FirstBank of Colorado

Ken Littlefield
Executive Vice President
Central Bancompany

Miriam Lopez
Chairman and Chief Executive Officer
TransAtlantic Bank

James J. McCarthy
Executive Vice President and Chief
Operating Officer
Danversbank

L. Kent Needham
President and Chief Executive Officer
First State Bank and Trust

Brad Rock
President and Chief Executive Officer
Bank of Smithtown

Ronald Schulthies
Executive Vice President and Chief
Lending Officer
Bank of Utah

Dave Scott
Executive Vice President and National Real
Estate Credit Officer
First Horizon National Corporation

Rick Smalley
Chief Executive Officer
Bank Midwest, NA

Dave Wells
Chief Executive Officer
K Bank

Elizabeth Wester
Vice President of Government Affairs
Florida Bankers Association

Doug Woolley
Chief Credit Officer
Union Bankshares Corporation

ABA Staff

Mark Tenhundfeld
Director
Office of Regulatory Policy
American Bankers Association

Paul Smith
Senior Counsel
Office of Regulatory Policy
American Bankers Association